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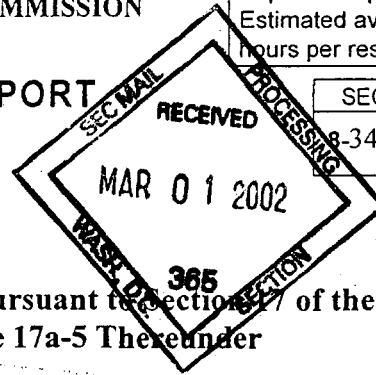
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

TC 377

OMB APPROVAL	
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Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 1/1/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
Gerard Klauer Mattison & Co., Inc. and Subsidiary

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

529 Fifth Avenue

(No. and Street)

New York

New York

10017

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Charles F. Ughetta, Principal Financial Officer

(212) 885-4002

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

J.H. Cohn LLP

(Name - if individual, state last, first, middle name)

75 Eisenhower Parkway

Roseland,

NJ

07068-1697

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☐ Certified Public Accountant
☒ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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THOMSON
FINANCIAL

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (3-91)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Charles F. Ughetta, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Gerard Klauer Mattison & Co., Inc. and Subsidiary, as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Charles F. Ughetta
Signature

Title

Marietta K. Bottero

Notary Public **MARIETTA K BOTTERO**
NOTARY PUBLIC, State of New York
No. 31-464432
Qualified in New York County
Commission Expires November 30, 2005

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in cash flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

****For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**GERARD KLAUER MATTISON & CO., INC.
AND SUBSIDIARY**



**REPORT ON CONSOLIDATED
FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2001

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

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Roseland, NJ • Edison, NJ • Englewood Cliffs, NJ • Lawrenceville, NJ • Ocean, NJ • New York, NY • Bronxville, NY • San Diego, CA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Gerard Klauer Mattison & Co., Inc.

We have audited the accompanying consolidated statement of financial condition of GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY as of December 31, 2001, and the related consolidated statements of operations, changes in liabilities subordinated to claims of general creditors, changes in stockholders' equity and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gerard Klauer Mattison & Co., Inc. and Subsidiary as of December 31, 2001, and their results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 4 to the consolidated financial statements, investment securities not readily marketable amounting to \$4,347,639 (18% of stockholders' equity) as of December 31, 2001 have been valued at estimated fair value as determined by the Board of Directors. We have reviewed the procedures applied by the directors in valuing such securities and investments and have inspected underlying documentation, and in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, the Board of Directors' estimate of fair values may differ significantly from the values that would have been used had a ready market existed for the securities, and the differences could be material.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

J. H. Cohn, LLP

Roseland, New Jersey
February 12, 2002



GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2001

ASSETS

Cash	\$ 8,088
Receivables from clearing broker	19,114,848
Receivables from other brokers and dealers	293,579
Advisory fees receivable	643,825
Securities owned	25,189,416
Furniture, equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of \$2,031,474	1,022,166
Receivables from related parties	8,529,289
Deferred tax assets	1,620,000
Prepaid income taxes	341,468
Other assets	<u>3,756,692</u>
Total	<u>\$60,519,371</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:	
Securities sold, not yet purchased	\$ 59,890
Accounts payable and accrued expenses	<u>35,836,973</u>
Total	<u>35,896,863</u>
Liabilities subordinated to claims of general creditors	<u>200,000</u>
Commitments and contingencies	
Stockholders' equity:	
Common stock, par value \$.005 per share; 10,000,000 shares authorized; 1,990,651 shares issued	9,954
Additional paid-in capital	13,695,657
Retained earnings	<u>10,716,897</u>
Total stockholders' equity	<u>24,422,508</u>
Total	<u>\$60,519,371</u>

See Notes to Consolidated Financial Statements.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2001

Revenues:

Commissions	\$ 46,563,034
Investment banking services	24,600,043
Advisory fees	2,432,115
Net dealer inventory:	
Sales credits	19,841,041
Realized and unrealized gains on marketable securities	408,111
Net gain on investment securities	11,011,326
Other income	<u>6,541,135</u>
Total	<u>111,396,805</u>

Expenses:

Compensation and benefits	72,946,929
Commissions and floor brokerage	6,713,765
Regulatory fees and expenses	868,989
Occupancy and equipment rental	4,540,327
General and administrative	27,075,559
Interest	<u>230,573</u>
Total	<u>112,376,142</u>

Loss before credit for income taxes (979,337)

Credit for income taxes (421,468)

Net loss \$ (557,869)

See Notes to Consolidated Financial Statements.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS
YEAR ENDED DECEMBER 31, 2001

Balance, December 31, 2001 and 2000

\$200,000

See Notes to Consolidated Financial Statements.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2001

	Common Stock		Additional Paid-in Capital		Retained Earnings	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance, January 1, 2001	1,921,509	\$9,607	\$12,721,431	\$11,274,766				\$24,005,804
Issuances of common stock	320,942	1,606	4,141,476					4,143,082
Repurchases of common stock						251,937	\$(3,168,509)	(3,168,509)
Retirement of common stock	(251,800)	(1,259)	(3,167,250)			(251,937)	3,168,509	
Net income				(557,869)				(557,869)
Balance, December 31, 2001	<u>1,990,651</u>	<u>\$9,954</u>	<u>\$13,695,657</u>	<u>\$10,716,897</u>		<u>-</u>	<u>\$ -</u>	<u>\$24,422,508</u>

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2001

Operating activities:

Net loss	\$ (557,869)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	633,563
Deferred income taxes	(1,244,000)
Changes in operating assets and liabilities:	
Receivables from clearing broker	19,085,009
Receivables from other brokers and dealers	2,196,198
Advisory fees receivable	53,687
Securities owned	(14,018,290)
Fees receivable from related investment funds	2,031,684
Prepaid income taxes	(341,468)
Other assets	(3,128,324)
Securities sold, not yet purchased	(27,968)
Accounts payable and accrued expenses	852,676
Income tax payable	(4,274,000)
Net cash provided by operating activities	<u>1,260,898</u>

Investing activities:

Repayments of notes receivable from related parties	137,522
Purchases of furniture, equipment and improvements	(815,209)
Net cash used in investing activities	<u>(677,687)</u>

Financing activities:

Proceeds from issuance of common stock	1,086,768
Proceeds from exercise of warrants	96,131
Repurchases of common stock	(2,099,461)
Net cash used in financing activities	<u>(916,562)</u>

Net decrease in cash (333,351)

Cash, beginning of year 341,439

Cash, end of year \$ 8,088

Supplemental disclosures of cash flow information:

Interest paid	<u>\$ 273,213</u>
Income taxes paid	<u>\$ 3,086,353</u>

See Notes to Consolidated Financial Statements.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Business and summary of significant accounting policies:

Business and principles of consolidation:

The consolidated financial statements include the accounts of Gerard Klauer Mattison & Co., Inc. ("GKM") and its wholly-owned subsidiary, GKM Advisers, Inc. ("Advisers"). GKM and its subsidiary are referred to collectively herein as the "Company". All significant intercompany accounts and transactions have been eliminated in consolidation.

GKM is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and is a member of the New York Stock Exchange (the "NYSE") and the National Association of Securities Dealers, Inc.

GKM provides investment banking, brokerage and related services primarily to institutional customers. Generally, GKM does not provide margin credit to its customers. Its businesses include investment research; securities underwriting, sales and trading; and market making. GKM also holds investments for its own account. GKM has an agreement with another broker-dealer (the "clearing broker") to clear transactions, carry customers' accounts on a fully-disclosed basis and perform record keeping functions and, consequently, operates under the exemptive provisions of SEC Rule 15c3-3k(2)(ii).

Advisers is a registered investment adviser operating under the Investment Advisers Act of 1940 serving individuals, corporations and retirement funds.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue recognition:

Securities transactions and related commission income and expenses are recorded on a trade-date basis.

Investment banking revenues generally included gains, losses and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent.

Investment advisory fee income is recognized in the period in which services are performed based on a percentage of assets under management.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Business and summary of significant accounting policies (concluded):

Revenue recognition (concluded):

In conformity with accounting principles generally accepted in the United States of America, the securities positions of GKM are accounted for in the consolidated financial statements pursuant to accounting principles for broker-dealers. Therefore, all securities owned and securities sold, not yet purchased by GKM are valued at market value. If the management of GKM believes that the liquidation of its position could reasonably be expected to have a material impact on the quoted market prices, securities owned are valued at estimated fair value. Nonmarketable securities owned by GKM are also valued at estimated fair value. Unrealized gains and losses are included in the consolidated results of operations.

Management of GKM determines fair value by taking into consideration, among other things, recent trading activity in the issue, if any, available market prices on comparable marketable securities and the financial condition and operating results of the issuer. Certain nonmarketable common shares, warrants, rights and other equity securities received as a result of investment banking and/or underwriting activities are valued by management at their initial value until such time as there are significant transactions or developments to provide evidence that an increase in the carrying value of such a security is appropriate. Generally, the carrying values of such a security will be increased only in those instances where market values become readily ascertainable, there is a substantial volume of transactions occurring in the marketplace and GKM has obtained the right to trade the security in the marketplace. Reductions to the carrying value of such a security are made in the event that estimates by GKM of net realizable value have declined below the carrying value.

Furniture, equipment and leasehold improvements:

Furniture, equipment and leasehold improvements are carried at cost. Depreciation is provided using straight-line and accelerated methods over estimated useful lives of three to seven years. Leasehold improvements are amortized over the lesser of the economic useful life of the asset or the term of the lease.

Income taxes:

The Company accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision or credit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Receivables from clearing broker:

Receivables from clearing broker at December 31, 2001 were attributable primarily to temporary deposits.

Note 3 - Receivables from noncustomers:

Receivables from noncustomers at December 31, 2001 arose from the accrual of investment banking fees during 2001.

Note 4 - Securities owned and securities sold, not yet purchased:

Securities owned and securities sold, not yet purchased consisted primarily of equity securities held for trading and investment purposes by GKM. A summary of those positions as of December 31, 2001 follows:

	<u>Owned</u>	<u>Sold, But Not Yet Purchased</u>
Marketable securities	\$ 3,557,285	\$59,890
Nonmarketable securities (A)	4,347,639	
Money market funds	<u>17,284,492</u>	<u> </u>
Totals	<u>\$25,189,416</u>	<u>\$59,890</u>

(A) Nonmarketable securities owned include investment securities for which there is no market on a securities exchange or no independent publicly quoted market; that cannot be offered or sold unless registration has been effected under the Securities Act of 1933; or that cannot be offered or sold because of other arrangements, restrictions or conditions applicable to the securities or to the Company. Such securities are valued at estimated fair value (Note 1).

Note 5 - Receivables from related parties:

Receivables from related parties at December 31, 2001 consisted of the following:

Notes receivable from officers and employees (A)	\$8,246,027
Fees receivable from related investment funds (B)	<u>283,262</u>
Total	<u>\$8,529,289</u>

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Receivables from related parties (concluded):

- (A) The notes bear interest at rates ranging from 7.75% to 9.25% (1.75% to 2% above the broker call rate at the inception of each loan). Substantially all of the notes are due on demand. Notes with a balance of approximately \$5,900,000 at December 31, 2001 arose from the purchase of shares of common stock of GKM (see Note 12), substantially all of which are scheduled to be repaid on a short-term basis. Other income in the accompanying consolidated statement of operations includes approximately \$199,000 of interest income derived from notes receivable from related parties during 2001.
- (B) GKM is a member in GFLK Fund Management, L.L.C. ("GFLK Management") and Pattern Recognition Fund Management, L.L.C. ("PR Management"). An executive officer and principal stockholder of GKM is the other member in and the managing member of GFLK Management. GFLK Management and PR Management are the general partners responsible for managing the operations of the GFLK Partnership L.P. (the "GFLK Fund") and the Pattern Recognition Fund, L.P. (the "PR Fund"), respectively. The GFLK Fund and the PR Fund operate as private investment limited partnerships. The GFLK Fund has agreed to pay management fees to GFLK Management and the PR Fund has agreed to pay management fees to PR Management for services and additional incentive fees based on their investment performance. GKM is entitled to substantially all of the fees earned by GFLK Management and PR Management. Management and incentive fees earned by GKM approximated \$1,633,227 in 2001. In February 2001, GFLK Management and GFLK Fund liquidated and issued final distributions of capital.

Note 6 - Liabilities subordinated to claims of general creditors:

At December 31, 2001, the Company had an outstanding note payable to a former stockholder with a carrying value of \$200,000. The note bears interest at 6.25% (based on the broker call rate at the inception of the loan) and is payable on February 28, 2002.

Borrowings under the note became subject to a subordination agreement dated February 26, 2001 that was approved by the NYSE and, as a result, are available in computing net capital under the Securities and Exchange Commission's Uniform Net Capital Rule (see Note 9). Accordingly, the note may be repaid only if, after giving effect to such repayments, the Company continues to meet such net capital requirements.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Commitments and contingencies:

Lease commitments:

The Company uses a seat on the NYSE pursuant to a lease which expires on September 1, 2002. Management expects that the parties will continue to renew this lease each September on substantially the same terms as those of the current lease.

The Company also uses office equipment under operating leases which expire at various dates through 2004 and occupies office space under operating leases which expire at various dates through 2016.

Minimum future rental payments for all such leases in years subsequent to December 31, 2001 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2002	\$ 4,617,644
2003	8,007,107
2004	6,242,577
2005	5,366,040
2006	5,159,850
Thereafter	<u>61,330,900</u>
Total	<u>\$90,724,118</u>

Rental expense for all leases aggregated approximately \$3,465,000 in 2001.

Underwriting commitments:

The Company enters into underwriting commitments in the normal course of business. In the opinion of management, any payments or losses arising out of underwriting commitments that were open as of December 31, 2001 will not be material in relation to the consolidated financial condition, results of operations, or cash flows of the Company.

Litigation:

The Company is a party to various legal actions arising in the ordinary course of business. The Company is vigorously defending itself against these actions. In the opinion of management, the outcome of these actions will not have a material adverse effect on the consolidated financial condition, results of operations, or cash flows of the Company.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Soft dollar arrangements:

The Company has entered into various soft dollar arrangements whereby it pays for research services on behalf of certain of its clients. Soft dollar credits are earned by clients at a predetermined percentage of commission dollars generated.

Receivables and payables under these arrangements were not material at December 31, 2001. The Company earned commission income of approximately \$5,309,000 and incurred research expense of approximately \$3,824,000 under these arrangements during 2001.

Note 9 - Net capital requirement:

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The net capital rule of the NYSE also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2001, the Company had net capital of approximately \$11,412,000, which was \$10,412,000 in excess of its required net capital of \$1,000,000. The Company's net capital ratio was 1.22 to 1.

Note 10- Income taxes:

The provision (credit) for income taxes is comprised of the following:

Current:	
Federal	\$ 844,657
State and city	<u>(22,125)</u>
Total	<u>822,532</u>
Deferred:	
Federal	(744,000)
State and city	<u>(500,000)</u>
Total	<u>(1,244,000)</u>
Total	<u>\$ (421,468)</u>

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10- Income taxes (concluded):

A reconciliation of Federal income tax computed based on pre-tax loss at Federal statutory income tax rates to the actual provision for income taxes follows:

Federal income tax at statutory rates	\$(332,974)
Increase (decrease) resulting from:	
State and city income taxes, net of Federal effect	(127,270)
Nondeductible expenses	342,700
Reversal of prior year overaccrual	<u>(303,924)</u>
Provision for income taxes	<u>\$(421,468)</u>

The Company had net deferred tax assets of \$1,620,000 at December 31, 2001 which were primarily attributable to the effects of certain compensation arrangements, unrealized losses on investments and other accrued expenses.

Note 11- Employee benefit plans:

The Company maintains defined contribution profit-sharing and pension plans for eligible employees. Contributions to these plans are made at the discretion of the Company's Board of Directors. The Company charged approximately \$650,000 and \$550,000 to operations in connection with the profit-sharing plan and the pension plan, respectively, in 2001.

Note 12- Common stock and warrants:

During 2001, the Company issued 320,942 shares of common stock to officers and employees in exchange for total consideration of \$4,143,082, comprised of notes receivable of \$3,056,314 (see Note 5) and cash of \$1,086,768. The Company also repurchased 251,800 shares of common stock in exchange for total consideration of \$3,168,509, comprised of cash payments of \$2,099,461 and the cancellation of notes receivable from certain of the former stockholders with an aggregate carrying value of \$1,069,048 at the time they were exchanged. Subsequent to the repurchase of these shares, the Company retired all shares of treasury stock. The exchanges of shares for notes receivable, the cancellation of notes and the retirement of treasury stock were noncash transactions and, accordingly, they were not reflected in the accompanying consolidated statement of cash flows.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12- Common stock and warrants (concluded):

The Company issued warrants to certain employees for the purchase of its common stock, which are exercisable at various prices and expire at various dates through 2006. The following table summarizes information about the Company's warrants:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Warrants outstanding, beginning of year	215,490	\$10.37
Awards granted	99,296	13.10
Awards exercised (A)	<u>(32,040)</u>	7.69
Warrants outstanding, end of year	<u>282,746</u>	

(A) Exercised in exchange for total consideration of cash payments of \$96,131.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock purchase warrants granted to employees. Since the stock purchase warrants were granted to employees and the exercise prices upon grant were equal to fair value, no compensation cost has been recognized. Had compensation cost been determined based on the estimated fair value of the stock purchase warrants in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"), the historical net loss would have been increased by \$51,000 for the year ended December 31, 2001. In determining the pro forma net loss, the fair value of each stock purchase warrant was estimated on the date of grant using the minimum-value method prescribed by SFAS 123 with an expected term of 5 years, no dividends, and a risk-free rate of 4.25%.

Note 13- Consolidated subsidiary:

The following is a summary of certain financial information of the Company's consolidated subsidiary:

Total assets	\$681,881
Stockholders' equity	329,588

The accounts of the subsidiary are not included in the net capital computation.

Note 14- Financial instruments with off-balance-sheet risk and concentration of credit risk:

Securities sold, not yet purchased represent obligations of the Company to deliver specified securities at contracted prices and thereby create a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk as the Company's ultimate obligation to satisfy the sale of securities sold not yet purchased may exceed the amount recognized in the consolidated statement of financial condition.

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14- Financial instruments with off-balance-sheet risk and concentration of credit risk (concluded):

Additionally, the Company is exposed to off-balance-sheet risk of loss on transactions during the period from the trade date to the settlement date, which is generally three business days. If the customer fails to satisfy its contractual obligations to the clearing broker, the Company may have to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations. Settlement of these transactions is not expected to have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

The Company maintains cash deposits with banks and brokers. At times, such deposits exceed applicable insurance limits. The Company reduces its exposure to credit risk by maintaining such deposits with high quality financial institutions.

Note 15- Subsequent event:

In January 2002, in connection with the repurchase of common stock from a stockholder, the Company entered into a subordinated loan agreement in the approximate amount of \$3,408,000. The subordination agreement was approved by the New York Stock Exchange on February 13, 2002 with an effective date of January 30, 2002.

* * *

GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
OF THE SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2001

Net capital:

Total stockholders' equity		\$24,422,508
Deduct stockholders' equity of subsidiary not allowable for net capital		<u>329,588</u>
Total stockholders' equity qualified for net capital		<u>24,092,920</u>

Add:

Accrued discretionary compensation, net of taxes	\$11,611,167	
Liabilities subordinated to claims of general creditors	<u>200,000</u>	<u>11,811,167</u>
Total capital and allowable subordinated liabilities		<u>35,904,087</u>

Deduct nonallowable assets and charges:

Receivables from clearing broker	3,305,529	
Receivables from other brokers and dealers	293,579	
Securities not readily marketable	4,347,639	
Furniture, equipment and leasehold improvements, net	1,020,228	
Receivables from related parties	8,529,289	
Deferred tax assets	1,620,000	
Prepaid income taxes	341,468	
Investment in and receivable from GKM Advisers	352,293	
Other assets	<u>3,756,692</u>	<u>23,566,717</u>

Net capital before haircuts on securities positions (tentative net capital)		<u>12,337,370</u>
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Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(f))		<u>925,481</u>
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Net capital		<u>\$11,411,889</u>
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Aggregate indebtedness:

Total liabilities		\$35,896,863
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Deduct:

Securities sold, not yet purchased	\$ 59,890	
Discretionary liabilities included in accounts payable and accrued expenses	<u>21,907,863</u>	<u>21,967,753</u>

Aggregate indebtedness		<u>\$13,929,110</u>
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Computation of basic net capital requirement:

Minimum net capital required		<u>\$ 1,000,000</u>
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Excess net capital		<u>\$10,411,889</u>
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Excess of net capital at 1,000%		<u>\$10,018,978</u>
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Ratio of aggregate indebtedness to net capital		<u>1.22 to 1</u>
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GERARD KLAUER MATTISON & CO., INC. AND SUBSIDIARY

SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
OF THE SECURITIES AND EXCHANGE COMMISSION (Concluded)
DECEMBER 31, 2001

Reconciliation with the Company's computation (included in Part IIA
of Form X-17A-5) as of December 31, 2001:

Net capital as reported in the Company's Part IIA (Unaudited) FOCUS report			\$12,775,386
Decrease in net capital resulting from changes in:			
Audit adjustments, net:			
Balance sheet reclassifications	\$ (2,670,863)		
Increase in haircut deductions	(20,150)		
Statement of operations changes	<u>1,327,516</u>	<u>(1,363,497)</u>	
Net capital per above			<u>\$11,411,889</u>
Aggregate indebtedness as reported in the Company's Part IIA (Unaudited) FOCUS report			\$14,879,137
Decrease in aggregate indebtedness resulting from audit adjust- ments to decrease accounts payable and accrued expenses		<u>(950,027)</u>	
Aggregate indebtedness per above			<u>\$13,929,110</u>

See Report of Independent Public Accountants.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL

To the Board of Directors
Gerard Klauer Mattison & Co., Inc.

In planning and performing our audit of the consolidated financial statements and supplemental schedule of Gerard Klauer Mattison & Co., Inc. and Subsidiary as of and for the year ended December 31, 2001, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications and comparisons
2. Recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, the SEC, the New York Stock Exchange, the National Association of Securities Dealers, Inc. and the other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

J. H. Cole, LLP

Roseland, New Jersey
February 12, 2002